

Las Vegas, Nevada, Hosts Infomercial Awards Conference

Mark Albright

KRTBN KNIGHT-RIDDER TRIBUNE BUSINESS NEWS (ST. PETERSBURG TIMES - FLORIDA)

October 02, 2000

Journal Code: KSPT **Language:** English **Record Type:** FULLTEXT

Word Count: 1987

LAS VEGAS, Nevada--Two nights after Hollywood toasted its TV stars at the Emmy Awards, another wing of the entertainment world gathered in black ties and evening gowns here to honor its celebrities.

It was the Electronic Retailing Association's annual Gala Awards ceremony, the so-called Emmys for Infomercials. While the Emmys may be largely a celebration of capitalism disguised as art, the infomercial world cuts to the bottom line.

A quartet sang:

"Our celebrities are here to stay,

"They seem to love the pay.

"Now everybody wants to do the show,

"We think it has to do with all that dough."

In truth, many of the better-known stars of the commercials that promote mail-order products from kitchen knives to exercise contraptions steered clear of the fete for fear of cheapening their image. But a beaming Suzanne Somers proudly claimed her award as female infomercial presenter of the year.

"My Hollywood friends all warned me that doing infomercials would ruin my career," said Somers, the former TV sitcom star who now is queen of the Thighmaster and the Torso Track. "But I love this business. It's also been extremely lucrative."

Infomercials seem to be on a roll. Celebrities typically pocket 1 percent to 2 percent of the gross sales of products they pitch, a multimillion-dollar payday for gadgets that turn out to be bestsellers. The paid advertising shows once aimed at night owls and insomniacs now air day and night on a growing number of cable and broadcast TV stations.

Some infomercial fare is even oddly compelling, whether it's exercise

guru Richard Simmons wringing sob stories from once overweight converts or a team of car thieves set loose with hacksaws and crowbars to prove rival anti-theft devices don't work.

But making money from a televised hard sell has become tougher than it looks. Only one product in 25 sold on infomercials ever makes a profit. So this industry built on one-hit wonders has proved to be a minefield for investors.

Stocks of the two publicly traded infomercial marketing companies -- one of them Reliant Interactive Media Corp. in Tampa -- each lost 90 percent of their value in the past year. Both now trade for pocket change. The skyrocketing costs of TV time have pressed this industry's unusual business model to the limit.

"Only the true survivors are still hanging on," said Tim Hawthorne, chairman and creative director of **Hawthorne Direct** Inc., a Fairfield, Iowa, infomercial ad agency. "Our cost of TV time (based on what's paid to reach the same number of potential viewers) has increased 500 percent in the past 15 years while print has only gone up 100 percent."

Thanks to Home Shopping Network in St. Petersburg, the Tampa Bay area is one of three epicenters of infomercial production, along with Los Angeles and Philadelphia. HSN has trained a corps of camera and production people skilled in selling products on TV and former executives who know how to find them.

"Everybody with a new product to sell makes a trip to Home Shopping, so they can see us on the same trip," said Kevin Harrington, chairman of Reliant Interactive Media, which has a successful computer infomercial show and is about to launch the Twist-A-Sizer exercise machine with Chubby Checker as the endorser.

No doubt the Federal Trade Commission also played a role in the infomercial industry's plight. Last month the FTC collected a \$10-million

civil penalty from Enforma Natural Products Inc. for a Steve Garvey infomercial that ran 30,000 times. The former baseball star claimed that anybody could lose weight by taking "Exercise in a Bottle" without having to lift a finger. In the past five years, the FTC successfully has taken more than 200 infomercial companies to task for deceptive advertising.

"The consumer has grown more sophisticated and, unfortunately, this industry still has some cowboys," said Carol Gamel, chief executive of HSN Direct, a St. Petersburg infomercial marketer controlled by Liberty Media and Microsoft Inc. Last year, HSN Direct turned a profit for the first time in a decade thanks to cost-cutting. (Although HSN Direct is housed on the campus of Home Shopping Network, the network owns only 15 percent of the venture. It sold the controlling interest in 1996.)

The infomercial industry is desperately trying to regroup. To cut costs many producers have turned to short, two-minute versions of the hard sell that often stretched a full half-hour. Some seek niches such as demonstrating golf clubs on the Golf Channel, skiing equipment on the Travel Channel and fishing lures on TNN. Others are trying to figure out how to use their persuasive TV ads to drive viewers to branded Internet shopping sites where customers might buy more products, chat with celebrity endorsers and have product questions answered.

It's not just infomercial marketers. Home Shopping Network last month began airing paid 30-minute shows on USA Network, Sci-Fi Channel and FoxSports Network to coax computer equipment customers to its new Web sites or a toll-free customer service line. HSN prefers to call the shows direct sales programs, not infomercials.

"We've done well enough with our computer show that we're going to test some beauty product programs," said Jack Kirby, president of HSN Interactive.

Jerry Shereschewsky, who heads direct marketing efforts at Yahoo Inc., the popular Web portal's e-shopping arm, says making the online connection will be a stretch for most infomercial products. TV is a passive medium; prodding viewers out of their Barcaloungers to fire up a computer and look up a Web site will require pitches truly relevant to their lives. "But if you pander enough to viewers' self-interest," he said, "it will work."

Infomercials have their roots deep in broadcasting. In the early days of television, pitchmen peddling the latest slicers and dicers were a common sight. Companies such as Procter & Gamble produced the daytime dramas now called soap operas and gave them to the networks in return for free commercials. And early stars, such as George Burns and Gracie Allen, pitched products from condensed milk to cigarettes while in character.

But today's infomercial industry is only 15 years old. It was created after President Reagan's administration removed limits on how many minutes of commercials broadcasters could jam into an hour.

The 1980s rebirth of half-hour infomercials made it possible to reach a national audience for a comparatively small amount of money in the wee hours of the morning. It was mostly time broadcasters couldn't sell. Most of the ads were for gadgets, get-rich-quick business systems and motivational tapes. Today gadgets remain the bulk of the infomercial trade, but exercise machines, health supplements, beauty systems and weight-loss programs have become the rage.

Because it's a shameless entrepreneurial battleground, knockoffs appear within weeks of every successful product launch. In 2000, marketers have plugged no less than eight versions of the Torso Track, the latest in an unending string of abdominal exercise devices. Sullivan Productions in Tampa saw competitors copy the camera angles in its infomercials for the battery-powered, touch-activated Tap Light. Once it was clear

that Billy Blanks, creator of a mix of martial arts and aerobics called Tae Bo, would sell millions of exercise videos, imitators came out of the woodwork. "One was called Thai-Bo, another was called Ty-Bo, another was called Cardio Kick Boxing, but there were so many we couldn't keep track of them all," said Sara Fetterman, spokeswoman for Integrity Global Marketing, which handles Blanks' tapes.

Yet even infomercial telemarketers have their limits.

A Marina Del Ray, Calif., author who goes by the name Arte has been unable to sign up any infomercial marketer to push his book New Sex Now that promises new lovemaking techniques. Too racy for TV, infomercial marketers said.

"I don't understand why," Arte said. "There's nothing in my book that hasn't been said on The View or in Viagra ads."

Garry Coates of Eco-Systems 2000 spent seven fruitless years trying to get Nature's Air Filter touted in an infomercial. A room air cleaner disguised as a planter, Nature's Air Filter uses zeolite pellets made by a West Palm Beach inventor. It's the same material used to create oxygen in Biosphere II. Not high-tech enough, marketers said. Regardless of what the pellets did, they didn't look like they justified a price high enough to offset the cost of TV time.

Rising media rates have changed the infomercial formula. These days the cost of buying TV time is far more than the wholesale cost of the products sold.

Department stores, for instance, typically pay \$1 for an item they can sell for \$2. Infomercial companies won't touch a product unless they can generate six to 19 times the wholesale price to pay for TV time, order fulfillment and inventory. It's made it all but impossible for infomercial companies to compete on price.

To hedge their risk against the high failure rate, new infomercials

are tested first in small doses. Take Reliant's Pest Offense, a microprocessor that plugs into a wall socket and is supposed to drive away rats, bats, ants and roaches. It sold 20,000 units in 20 minutes on the QVC shopping network so Reliant tested a 30-minute infomercial featuring former HSN show host Mel Arthur in 20 markets. The air time cost \$48,000. The show generated \$173,000 in sales, far more than the \$96,000 break-even point.

"So we knew the infomercial would sell," said Harrington, the Reliant chief who with his brother, Tim, was among the infomercial industry's founders and served as the first president of HSN Direct.

Next Reliant doubled the media buy for Pest Offense to determine what times of day it sold best. Within weeks the company was pouring \$500,000 a week into ads and getting \$1.2-million in sales. Sales began falling after eight months. Next year Reliant will try again on TV but also in publications such as Parade and the National Enquirer.

With 10 successful products in the past 18 months, however, the profits barely covered the losses of Reliant's 20 duds. Reliant reported tiny net earnings of \$382,000 on sales of \$38.2-million in the six months that ended June 30. In the past year Reliant stock sank from \$6 to a 52-week low of 50 cents on Sept. 19.

With an injection of \$10-million in fresh capital, Reliant is being sold to TeleServices Internet Group, a St. Petersburg company that wants to use Reliant's infomercials and products to promote its Web portal, GeneralSearch.com, Reliant will morph into AsSeenOnTVPC.com.

Nobody keeps track of infomercial sales. Independent monitoring companies report only the amount of air time infomercial marketers buy. It's based on the assumption that the best-selling products are the ones whose handlers buy the most air time.

"That's because so few companies reveal their sales," said Rebecca Cantanese, editor of Infomercial Monitoring Service. "The industry is growing only in the sense that we're seeing more programs and a

lot of new
things are being sold on infomercials."

Producers also try to outdo each other with more can-you-top-this
product demonstrations, the deal clinchers that make or break a
sale.

There's the testimonial and before-and-after photos of a model
who lost 140
pounds, and the announcer who sets fire to a car hood to prove
the
toughness of car wax shine. Reliant is working up a spot
featuring an
announcer gripping a Super Wrench while dangling from a greased
pipe over
hot coals.

Veteran pitchman Ed McMahon, who at 77 is trying to
resurrect his Star
Search **show** as an **infomercial**/Internet **product** called
NextBigStar.com, is
convinced infomercials have a big future. As the Internet becomes
part of
your TV, customers will push a "Buy It" button on the remote
control, McMahon says.

"Nothing has really changed in this business since I got my
start
selling the Morris metric slicer on the Boardwalk in Atlantic
City in the
1950s," McMahon said, launching into his memorized spiel.
"Ladies, forget
that this handy slicer normally goes for \$2. Today it can be
yours for \$1."

Copyright 2000 Knight-Ridder/Tribune Business News. Source: World
Reporter
(Trade Mark) - Knight-Ridder Tribune Business News.